

13 March 2023

Aviation

4QCY22 Report Card: Relearning to Fly

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NEUTRAL



We maintain our NEUTRAL view on the sector despite downgrading our call to UNDERPERFORM from MARKET PERFORM for CAPITALA (UP: TP: RM0.67) after the recent run-up in its share price. There was a mild sequential improvement in the 4QCY22 results season, with one player meeting our forecast while the other missed, against both disappointing in the prior 3QCY22 results season. While we expect passenger throughput to continue to improve from 2023, we only expect the numbers to catch up to pre-pandemic level by 2024. Meanwhile, each player has its own unique set of issues. For AIRPORT (MP; TP: RM6.80), a much-needed tariff hike does not appear to be forth-coming in accordance to a recent consultation paper published by Malaysia Aviation Commission (MAVCOM). Meanwhile, the clock is ticking on a more viable and holistic regularisation plan to lift CAPITALA out of its Practice Note 17 (PN17) status. We do not have any pick for the sector.

A mixed bag of FY22 results. There was a mild sequential improvement in the recently concluded 4QCY22 results (against expectations) as CAPITALA came in within, and AIRPORT performed below, our expectations, compared to both underperforming in the prior 3QCY22 results season (see table on Page 2). AIRPORT's FY22 results disappointed on higher operating cost. Nevertheless, its passenger's throughput recovery is gaining traction in both Malaysia and Turkey. Malaysia operation recorded 53m (50% of 2019 levels) passengers in 2022 driven by airlines average load factor of 71% compared to 52% in 2021. ISG (Turkey operation)'s traffic is growing steadily and is on track to exceed pre-Covid levels.

Tourist arrivals to rise four-fold to 9.6m in 2023. We project tourist arrivals in Malaysia to jump four-fold to 9.6m in 2023 from an estimated 2.5m a year ago (see chart on the next page) thanks to the return of both business and leisure air travel globally as the pandemic comes to an end, including Chinese tourists that historically contributed to an estimated 12% of total tourist arrivals in Malaysia. This should underpin growth in AIRPORT's passenger throughput and CAPITALA's passenger demand in 2023.

Further volume improvement for AIRPORT and CAPITALA in 2023. We project AIRPORT's system-wide passenger throughput to rise by 38% to 116m in 2023, but it's still a long way from matching the pre-pandemic level of 141m recorded in 2019. We expect traffic trajectory to grow in subsequent months as airlines continue to reactivate more aircrafts to match increasing demand. Amplifying traffic growth trajectory is aircraft movements that are pointing towards increased medium and long-haul flights to Perth, Sydney and Auckland, Southeast Asia and South Asia destinations. Recently, KL International Airport saw the return of Kuwait Airways after a seven-year hiatus, while two other foreign carriers i.e. KLM Royal Dutch Airlines and All Nippon Airways, will resume non-stop flight operations to Amsterdam and Tokyo, respectively. In addition, Malaysia Airlines has increased its flight frequency to Tokyo from November 2022. AirAsia Group meanwhile is focusing on its medium haul operations and has increased its Malaysia AirAsia X flights to 44 weekly across 10 routes since November 2022.

Looking into 2023, we project CAPITALA's system-wide revenue seat km (RPK) to grow 52% to 35b in FY23, after recovering by 19b to 24b in FY22. CAPITALA expects its passenger demand to continue to rise moving into 2023. In Nov 2022, the group already operated 125 aircrafts and is currently targeting to get 140 operational aircrafts to reach full fleet utilisation by 2QCY23. Its digital segment is expected to remain loss-making. airasia Super App is expected to grow, underpinned by the continued resurgence of travel demand from borders reopening and tactical campaigns, alongside expected growth from airasia Food, Ride and Xpress. Additionally, Teleport is expected to continue expanding throughout 2023 as it adds new international lanes and delivery hubs. BigPay has also launched its digital lending platform to provide new loan products.

AIRPORT's much-needed tariff hikes not forth-coming. Meanwhile, recent consultation paper published by MAVCOM to keep airport tariffs status quo could work against AIRPORT's ability to generate enough cash flows for capex purposes, particularly for airport expansion and maintenance. While MAVCOM also proposes a mechanism for AIRPORT to recoup losses incurred during Regulatory Period 1 (RP1) in Regulatory Period 2 (RP2), we are concerned over AIRPORT's cash flows over RP1. While the proposals in this MAVCOM consultation paper are not cast in stone, they do significantly raise AIRPORT's earnings risk over the medium term.

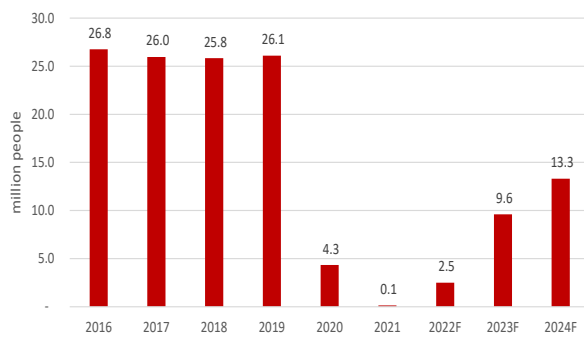
CAPITALA's regularisation plans to exit PN17 in the works. The group plans to announce the details of its PN17 regularisation plan by mid-April 2023 with completion expected by end-3QCY23. Following the run-up in its share price recently, we downgrade our call from MARKET PERFORM to UNDERPERFORM. We do not have any pick for the sector.

Quarterly Results Performance

	4QCY22						3QCY22					
	KENANGA			CONSENSUS			KENANGA			CONSENSUS		
	Above	Within	Below	Above	Within	Below	Above	Within	Below	Above	Within	Below
AIRPORT			1			1			1			1
CAPITALA		1				1			1			1
Total	0	1	1	0	0	2	0	0	2	0	1	1
Total (%)	0	50	50	0	0	100	0	0	100	0	50	50

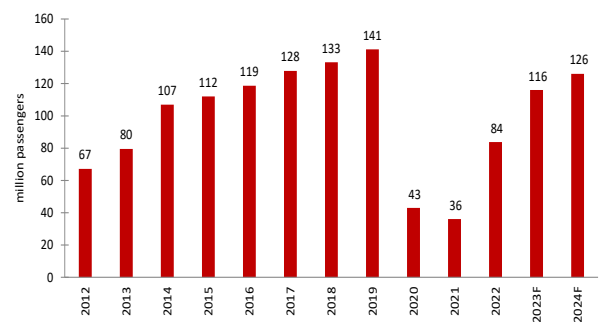
Source: Kenanga Research, Companies quarterly results

Tourist Arrivals in Malaysia



Source: Tourism Malaysia, Kenanga Research

AIRPORT's System-wide Passenger Throughput*



*million passengers

Source: Kenanga Research, Company

13 March 2023

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
CAPITAL A BHD	UP	0.810	0.670	-17.28%	3,371.1	Y	12/2023	2.6	3.8	-96.5%	48.3%	31.3	21.1	N.M.	N.M.	0.0	0.0%
MALAYSIA AIRPORTS HOLDINGS BHD	MP	6.78	6.80	0.29%	11,249.3	Y	12/2023	27.8	31.0	28.5%	11.7%	24.4	21.8	1.5	6.1%	12.0	1.8%

Source: Kenanga Research

13 March 2023

Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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